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PROCUREMENT AND MARKETING PRACTICES OF INDEPENDENT FRUIT AND VEGETABLE WHOLESALERS

by

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Investigates what factors are necessary for expanding sales of locally grown produce to wholesale handlers.

INTRODUCTION AND OBJECTIVE

Marketing of fruits and vegetables has been changing over the past 40 years from a centralized to a decentralized system. Much of this trend is attributable to improvements in post-harvest handling and refrigeration techniques, development of transportation and communication systems, and economies of scale realized by retail grocery chains. The role of central terminal markets diminished as purchases made in major production areas by chain store buyers or brokers representing retailers or wholesalers increased. Development of a decentralized marketing system encouraged buyers to deal directly with sellers in major production areas and likewise encouraged sellers to expand in size to fulfill the large volume purchase requirements of these buyers. Fruit and vegetable growers outside major production retions who are presently attempting to enter the commercial fresh marketing channel are confronted with a formidable access barrier.

In order to focus on market access problems of small quantity growers, personal interviews were conducted with every wholesale produce handler in Tennessee. Information was obtained to determine operational characteristics and procedures of independent produce handlers regarding produce procurement and to evaluate the potential for expanded sales of locally grown produce to local wholesale handlers.[1]

Characteristics of Wholesalers

The diversity and individuality of the independent fruit and vegetable wholesalers is illustrated by the number of different products handled and services rendered. This independent wholesaler group included all produce handlers who take possession and title to more than 50 percent of the products handled and who are not affiliated through ownership or contractual agreement with a retail grocery chain. Three-fourths of the wholesalers handled a full line of produce products, while the other one-fourth specialized in just one or a few products. With respect to ownership, 29 wholesalers were owned by an individual, 56 were organized and owned as corporations, 14 were owned as a partnership, and only one was owned cooperatively.

Several wholesalers, 18%, reported that their firm had been in the produce business less than 10 years and another

10% between 10 and 20 years. Twenty-nine percent of the wholesalers reported their firm's business age at 40 or more years.

Products Handled

Rather than attempting to list all of the products handled by the surveyed firms, each firm manager or sales agent was asked to identify their firm's three most important products. The three major products were tomatoes, potatoes, and lettuce (Table 1).

An important consideration regarding the access barrier of local growers to local wholesalers is the source of products presently handled. To identify the products, the surveyed handlers were asked to report all products purchased from southeastern growers. The following eight products listed in decending order, were reported by 40% or more of the wholesalers--tomato, pepper, potato, cabbage, green bean, peach, watermelon and cucumber (Table 2).

To determine the relative importance of southeastern produce to the surveyed handlers, they were asked to estimate the share of total annual volumes accounted for by products at least partially obtained from southeastern growers. On the average, slightly more than one-third of their total annual volumes were accounted for by products available from southeastern growers (Table 3). However, 20 of the wholesalers reported 75% or more of total annual volumes were accounted for by the products at least partially purchased from southeastern growers.

Sources of Produce Supplies

Among the surveyed wholesalers, 53% reported having both good and bad experiences while dealing with new sources of produce supplies. Twenty-four percent reported that they do not deal with new supply sources, while the remaining 18% expressed the view that new supply sources were often too undependable.

Thirty-seven of the wholesalers reported that their firm had a policy for locating new suppliers. The procedure reported by 61% of the wholesalers

TABLE 1. FREQUENCY WITH WHICH VARIOUS FRUITS AND VEGETABLES REPORTED AS ONE OF THREE MOST IMPORTANT PRODUCTS HANDLED BY INDEPENDENT PRODUCE WHOLESALERS, TENNESSEE, 1981

Product	Independent Wholesalers (n=100)	Product	Independent Wholesalers (n=100)
Tomatoes	59[a]	Strawberries	4
Potatoes, white	58[a]	Watermelon	4
Lettuce	54	Carrots	2
Bananas	25[a]	Green beans	2
Cabbage	19[a]	Peaches	2
Onions	17	Okra	1
Apples	8	Peas, southern	1
Citrus fruits	4	Corn, sweet	1
Cantaloupe	4	Pineapple	1

[a]Thirteen independent wholesalers specialized in one product--9 handled tomatoes, 2 potatoes, 1 cabbage, and 1 bananas.

TABLE 2. NUMBER OF INDEPENDENT PRODUCE WHOLESALERS THAT OBTAINED PRODUCE FROM SOUTHEASTERN GROWERS, TENNESSEE, 1981

Produce	Independent wholesalers (n=100)	Produce	Independent wholesalers (n=100)
	percent[a]		percent[a]
Apples	15	Okra	27
Blackberries	8	Onions, dry & green	22
Blueberries	9	Peaches	41
Broccoli	24	Peanuts	6
Butter beans	34	Peas, southern	26
Cabbage	43	Peppers, bell	48
Cantaloupe	34	Plums	8
Carrots	26	Potatoes, white	45
Collards	23	Radish	25
Corn, sweet	30	Scuppernong	8
Cranberry	32	Spinach	24
Cucumbers	40	Squash	34
Eggplant	23	Strawberries	9
Grapes	7	Sugar cane	7
Green beans	41	Sweet potatoes	22
Greens	28	Tomatoes	75
Honeydew melons	19	Turnips	22
Lettuce	25	Watermelons	41
		No response	12

[a]Percentages based on number of respondents to this particular question.

TABLE 3. PROPORTION OF TOTAL ANNUAL VOLUMES ACCOUNTED FOR BY PRODUCTS IDENTIFIED BY INDEPENDENT PRODUCE WHOLESALERS AS BEING AT LEAST PARTIALLY OBTAINED FROM SOUTHEASTERN PRODUCERS, TENNESSEE, 1981

Share of Total Annual Volume	Independent wholesalers (n=100)	
	number[a]	average percent
1 - 24 percent	20	13.0
25 - 49 percent	28	30.9
50 - 74 percent	20	56.5
75 - 99 percent	12	75.3
100 percent	8	10.0
TOTALS	100	36.8[b]

[a]Includes wholesalers that did not handle any produce from southeastern growers.
[b]Weighted average percent for respondents.

was to check the suppliers references in either of two available sources, "The Red Book" or "The Blue Book." Slightly more than one-fourth, 28%, reported waiting for the new supplier to make contact or take the initiative, since as buyers they already receive ample supplies. The remaining 12% reported that the seller must meet the buyer's requirements, seek new suppliers only in major supply areas, or personally inspect the potential new supplier's operation.

Many of the potential new suppliers for a given set of wholesalers will be small quantity suppliers. Because of this, many handlers have special requirements. Eighteen percent of the responding wholesalers reported that the supplier must meet volume requirements, while another 18% said they would not deal with small quantity suppliers. Some 59% of the wholesalers generalized their response by reporting that the small supplier must meet the same basic requirements as any other supplier. The remaining 5% reported a willingness to purchase on a trial basis.

This led to asking handlers to specify requirements for buying produce from any supplier, large or small. Consistent good quality was noted the greatest number of times, by 82% of the wholesalers. Competent grading, which obviously is associated with consistent quality was reported by 24%. Notably, price and service which were reported by 17% and 11 % respectively, were less important to the wholesalers than quality. Another 14% insisted on adequate supply, 8% on adequate packaging, and only 1% specified precooled products.

Regarding possible purchases from a new supply area, the wholesalers were asked to rank a number of factors that might influence their firm's decisions. Because of the large number of products handled, presentation of the results is limited to five products. The most important factor, regardless of product, is consistent quality (Table 4). A dependable supply over a specified period of time was listed by more than half of the wholesalers for all five products, although the importance rankings were slightly lower than those for quality. While only one-fifth of the wholesalers reported price as an important factor affecting product purchase decisions, it was judged fairly important by those wholesalers.

Knowledge of the traditional sources of produce supplies used by independent produce wholesalers is essential to understanding the access problems of local growers supplying local wholesalers. Wholesalers were asked to report the proportions of total annual product volumes obtained from different sources. The dominant source was produce brokers (Figure 1). Many of the wholesalers obtained products directly from growers. The location of these growers and the size of these growers' operations were not ascertained. A relatively small number of wholesalers purchased products from a selling agent or shipping point wholesaler. Other independent wholesalers were an important supply source of these products, except apples. The products that are purchased by wholesale produce handlers from other wholesale produce handlers include both inter- and intra-city transfers. The intra-city transfers emphasize one of the complementary effects of wholesale produce handlers operating in close proximity with each other, e.g., within the same food-oriented industrial park.

Distribution Outlets

The wholesalers were asked to identify the various types of outlets they supplied. Retail grocery stores, restaurants, and institutions were the two major outlets for tomatoes, potatoes, lettuce, and cabbage (Figure 2). A

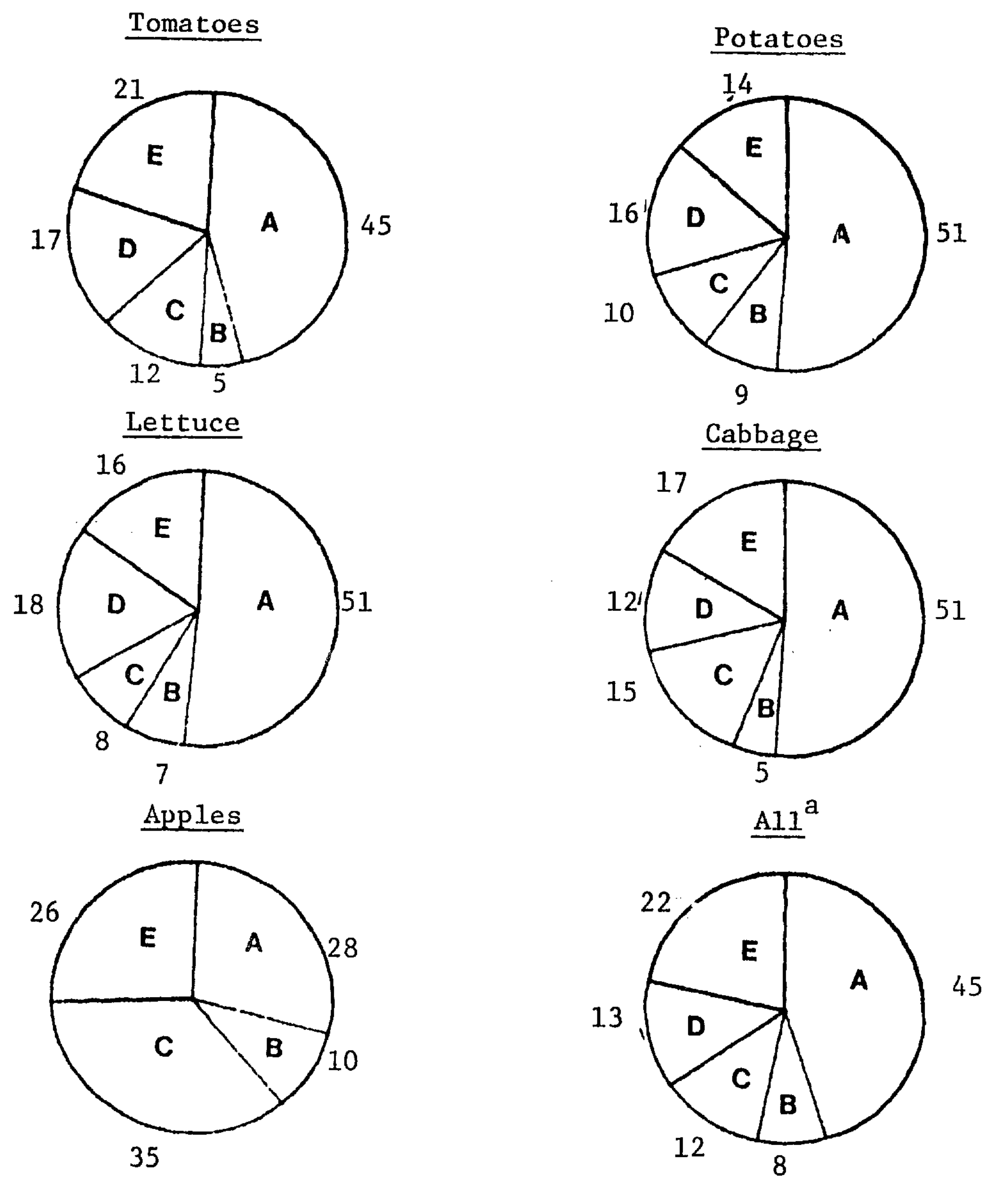
TABLE 4. SCALE RANKING OF FACTORS REPORTED BY INDEPENDENT PRODUCE WHOLESALERS AS AFFECTING DECISIONS TO PURCHASE SELECTED PRODUCTS FROM A NEW SUPPLY AREA, TENNESSEE, 1981

Factors influencing firm's decisions	Product				
	Tomato (n=59)[a]	Potato (n=58)[a]	Lettuce (n=54)[a]	Cabbage (n=19)[a]	Apple (n=8)[a]
	- average[b] - (number of respondents)				
Consistent quality	1.2 (53)	1.2 (52)	1.1 (48)	1.1 (18)	1.4 (8)
Adequate volume	2.7 (41)	2.9 (36)	2.8 (36)	2.4 (14)	2.4 (5)
Dependable supply over a period of time	2.4 (45)	2.5 (40)	2.5 (38)	2.9 (13)	3.0 (5)
Provide a prepacker product	4.5 (37)	4.5 (34)	4.5 (36)	4.5 (13)	5.0 (4)
Proximity to other established supply areas	4.7 (33)	4.6 (30)	4.4 (32)	4.5 (13)	4.8 (5)
Only source of supply	4.7 (33)	4.9 (28)	4.8 (30)	4.7 (13)	5.3 (4)
Product price	1.8 (8)	1.9 (10)	2.1 (7)	2.0 (6)	1.7 (3)
Transportation cost	3.0 (1)	3.0 (1)	3.0 (1)	-- --	-- --
Service	3.0 (4)	2.8 (4)	3.0 (3)	2.7 (3)	2.0 (1)
Past experience with supplier	2.0 (2)	3.0 (1)	3.0 (1)	-- --	-- --

[a]Number of wholesalers out of 100 interviewed who reported this product as one of their three most important products.

[b]Factors ranked from 1 to 7, with 1 = the most important.

FIGURE 1. SUPPLY SOURCES FOR THE FIVE MAJOR PRODUCTS PURCHASED BY INDEPENDENT PRODUCE WHOLESALERS, TENNESSEE, 1981

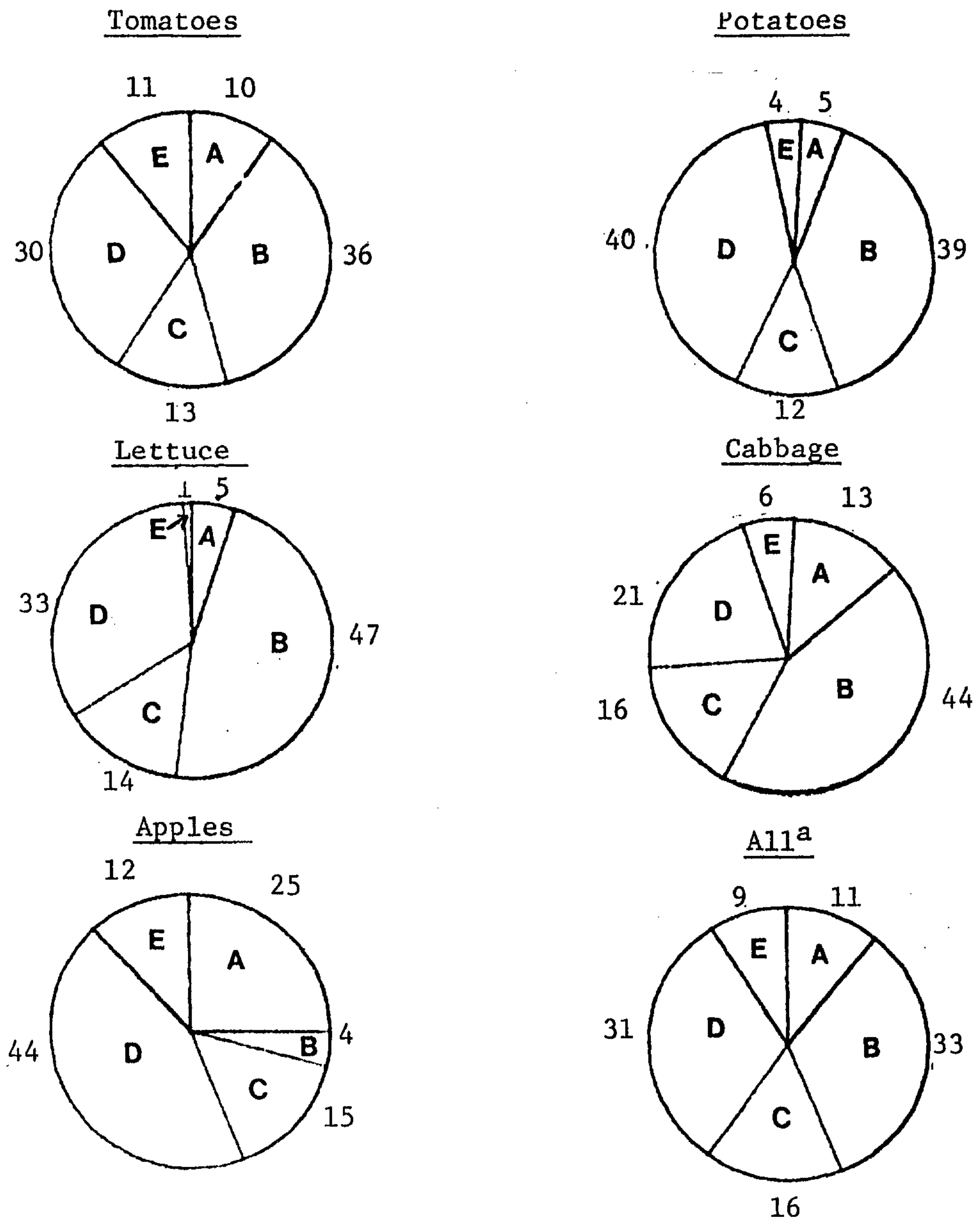


Legend:

A - Brokers
B - Shipping point wholesalers
C - Selling agents
D - Independent wholesalers
E - Growers

[a]Average for the three major products of all wholesalers.

FIGURE 2. DISTRIBUTION OF TOTAL SHIPMENTS OF THEIR FIVE MAJOR PRODUCTS AMONG VARIOUS OUTLETS BY INDEPENDENT PRODUCE WHOLESALERS, TENNESSEE, 1981



Legend:

A - Independent wholesalers
B - Institutions and restaurants
C - Chain wholesalers
D - Retail stores
E - Others[b]

[a]Average for the three major products of all wholesalers.

[b]Truckers, speciality produce stores, and processors.

small number sold produce to truckers, speciality produce stores, and processors (listed as "others" in Figure 2). However, a notable finding is the extent wholesalers sell to one another. For the three major products of each wholesaler, other independent wholesalers as an outlet accounted for 11% of total sales and chain store wholesalers accounted for 16% of total sales. This is interesting since chain store buyers supposedly by-pass terminal markets for most produce supplies.

Produce Specifications

As noted earlier, new suppliers must satisfy certain minimum specifications to sell produce to wholesaler handlers. For the five products--tomato, potato, lettuce, cabbage and apple--wholesale handlers reported the minimum qualities they would accept, minimum volume per delivery, total volume they handle per week, packaging requirements, and minimum season per supplier.

Most of the tomato handlers, 71%, required U.S. No. 1 tomatoes (Table 5). Nineteen percent were willing to receive U.S. No. 2's, and 10% said they could receive U.S. No. 3's. The minimum acceptable volume of tomatoes per delivery ranged from 750 pounds to 50,000 pounds, with an average of 18,743 pounds. This should be encouraging to smaller quantity suppliers since at least some handlers do not require a full carlot load to meet minimum delivery volume. Packaging requirements included the two carton sizes prevalent in the industry today--20 and 30 pounds. Nearly three-fourths preferred the 20-pound carton.

For potato, lettuce, cabbage and apple, none of the handlers reported a willingness to purchase less than a U.S. No. 2 product. And only a small number reported a willingness to accept U.S. No. 2's. The minumum delivery requirements were similar to those of tomatoes. Potatoes was the only product to be received in retail sized packages.

It appears that local and other southeastern suppliers are eliminated from consideration by a sizeable number of independent wholesalers because they cannot supply the product for an entire year. This was more frequent with potatoes and lettuce than tomatoes, cabbage, or apples. Of course, these handlers who purchase the produce from the same supplier all year are purchasing from another wholesaler who in turn purchases from many suppliers from different production regions during the course of a year. Notably, the least amount of time over which wholesalers were willing to purchase from a supplier was one month. Virtually every responding wholesaler expressed the view that it was not worth the effort to disrupt regular suppliers for the sake of receiving only one or two loads from a new supplier.

CONCLUSIONS AND IMPLICATIONS

Based on the responses of the surveyed independent wholesalers, consistent high quality, which includes proper packaging, is the major access barrier confronting small quantity fruit and vegetable growers regarding sales to wholesale handlers. Associated with this quality factor is the expressed need of wholesalers to receive at least a certain minimum volume over a minimum season. While the minimum acceptable volumes listed by several of the wholesale handlers seems reasonably obtainable, it must be noted that the volume was for a particular grade and size. For instance, what acreage and assumed yield per acre would be required to supply 20,000 pounds of U.S. No. 1 tomatoes? Where will the accompanying U.S. Nos. 2 and 3 grade tomatoes be sold? A handler may want only one grade or size. While 20,000 pounds of tomatoes per acre is certainly obtainable, not all of that yield will be

TABLE 5. SPECIFICATIONS REPORTED BY 100 INDEPENDENT PRODUCE WHOLESALERS REGARDING PURCHASE REQUIREMENTS FOR FIVE SELECTED PRODUCTS, TENNESSEE, 1981

Item	Tomato (n=59)	Potato (n=58)	Lettuce (n=54)	Cabbage (n=19)	Apple (n=8)
			-pounds-		
Minimum volume per delivery:					
average	18,743	32,549	16,548	15,891	24,711
range	750-100,000	600-100,000	500-100,000	500-40,000	3,000-40,000
Total volume handled per week:					
average	51,478	60,458	33,139	26,625	91,575
range	1,200-280,000	600-700,000	500-200,000	1,000-80,000	3,000-280,000
			percentage of wholesalers		
Minimum quality:					
U.S. No. 1	71	86	94	94	88
U.S. No. 2	19	14	6	6	12
U.S. No. 3	10	0	0	0	0
Packaging requirements:					
10 lb. sack	0	13	0	0	0
20 lb. carton	71	0	0	0	0
30 lb. carton	29	0	0	0	0
40 lb. carton	0	0	0	0	62
50 lb. carton	0	32	0	100	0
24 head carton	0	0	85	0	0
100 lb. sack	0	55	0	0	0
Bushel container	0	0	0	0	38
Bulk container	0	0	15	0	0
Minimum season per supplier:					
1 month	9	11	8	38	25
2-3 months	25	11	24	38	0
4-6 months	16	22	4	0	25
7-11 months	22	11	0	0	25
12 months	28	45	64	24	25

U.S. No. 1 and not all of that yield will be ready for harvest at one time. The surveyed wholesaler also emphasized the need to receive produce from one supplier for more than just one or two shipments.

The hesitancy expressed by many of the wholesalers regarding produce purchases from new suppliers and small quantity suppliers emphasizes the necessity of entering this commercial market cautiously. A buyer's first experience with a new supplier may set the attitude of that buyer regarding a whole group of potential suppliers in a particular production area. The eagerness of a grower-supplier to make a sale to a buyer can often create a short-sightedness that damages the reputation of all growers in the region if that sale contains fradulently labeled produce, regardless of intent.

Apparently most of the wholesalers expect the potential new supplier to take the initiative. As far as the wholesaler is concerned, he is already receiving all of the produce he needs. His concern is with quality, price and dependability. New suppliers will have to convince the buyer of product quality and dependability and may have to accept a discounted price in the short run to entice the buyer to accept the inherent risk of purchasing from a new supplier.

The importance of brokers and wholesalers as a source of supply was emphasized by the surveyed wholesalers. This supports the contention regarding the institutionalized nature of product and informational flows within the commercial fresh fruit and vegetable marketing channel. For potential new suppliers, this insight reveals the importance of using or employing selling brokers who have established contacts. However, this again emphasizes the need for adequate volume and quality to meet commercial buyers' requirements. On the other hand, the number of wholesalers who reported buying produce directly from growers reveals another marketing channel that growers may pursue. This approach would obviously require more input from the grower since he would be performing the selling function himself rather than paying a broker.

While not explicitly addressed in this study, the emphasis placed by the wholesalers on receiving a product from any supplier that meets established requirements supports the implication that growers in potential supply areas must supply that product. If the wholesalers are presently handling mature green tomatoes, then to enter this market it may be more prudent to grow tomatoes for this mature green market rather than attempting to persuade the wholesalers to handle vine-ripe tomatoes. In other words, the new supplier attempting to enter a market should supply the product the buyer presently handles, not the product the grower feels the buyer should handle. If a grower, or group of growers, consider a product they produce to be a premium product, then a special marketing effort may be necessary to enter the particular markets willing to purchase this premium product.

The feasibility of producing a particular product and/or the competitive position of southeastern producers with respect to other producers is beyond the scope of this report. Growth expectations and even industry survival in the commercial wholesale market depends upon a number of economic factors and political forces often outside the control or influence of growers and concerned individuals in public agencies.

FOOTNOTE

[1]A total of 133 wholesale producer handlers were identified in Tennessee in 1981. Among these, 100 were classified as independent wholesalers.

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